

## NATIONAL DAIRY SITUATION AND OUTLOOK

### Milk Production and Cow Numbers

Monthly: Compared to 2001, overall milk production across the U.S. was up 2.0% in June, led by New Mexico's 14.4% growth in milk production (on 35,000 more cows and 20 more pounds per cow). California's production was up 5.1% (on 58,000 more cows and 25 more pounds per cow). Among other western states, Arizona was up 7.0%, Idaho up 5.0%, and Washington up 1.7%. Four of the top ten states reported decreases: Michigan -1.0%, Minnesota -5.2%, Pennsylvania -2.1%, and Wisconsin -2.2%.

Quarterly: For the second quarter of 2002 compared to the second quarter of 2001, U.S. milk cow numbers were unchanged at 9.1 million, but production per cow was up 2.7% to 6.1 gallons/day; the net effect was a 2.6% increase in milk production to 43.8 billion pounds. USDA projects that for the third quarter of 2002 compared to the third quarter of 2001, U.S. milk cow numbers will be unchanged at 9.1 million but production per cow will be up 2.8% to 5.8 gallons/day; the net effect would be a 2.7% increase in milk production to 41.7 billion pounds.

### Milk Prices

Comparing the second quarter of 2002 to the first quarter of 2002, U.S. average milk prices were

down \$0.25/cwt. to \$12.25/cwt. USDA projects that for the third quarter of 2002, U.S. average milk prices will be down another \$1.00/cwt.; including a \$1.00/cwt. Class 4b price decrease and a \$0.25/cwt. Class 4a price decrease.

### Utility Cow Prices

Comparing the second quarter of 2002 to the first quarter of 2002, average U.S. utility cow prices were up \$1/cwt. to a national average of \$43/cwt. USDA projects that utility cow prices will be unchanged in the third quarter of 2002.

Information from the USDA-NASS publication "*Milk Production*" and the USDA-ERS publication: "*Livestock, Dairy, and Poultry Outlook*."

## Pooling Administration Fees Reduced

The Pooling Administration Fee has been reduced from one and one tenth cent per hundredweight (\$0.011 cwt.) to one-half cent per hundredweight (\$0.005 cwt.), effective July 1, 2002, for approximately 12 months. This fee reduction is intended to reduce the amount of surplus Pooling funds over needed reserves.

### Special Features . . .

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## JUNE MILK PRODUCTION

Milk production in California for June 2002 totaled 2.96 billion pounds, up 6.4 percent from June 2001. USDA's estimate for U.S. milk production for June 2002 in the 20 major dairy states is 12.3 billion pounds, up 2.0 percent from June 2001. Production per cow in the 20 major states averaged 1,579 pounds for May, which is 24 pounds above June 2001.

## MINIMUM CLASS PRICES

Statewide average hundredweight prices

Class	July	August
1	\$12.66	\$12.46
2	\$11.33	\$10.95
3	\$11.17	\$10.78
4a	\$10.05	----
4b	\$ 8.90	----

## FEDERAL ORDER AND CALIFORNIA MINIMUM CLASS 1 PRICES

Average Hundredweight Prices

Regions	July	August
Phoenix, Arizona	\$12.97	\$12.83
Southern California	\$12.79	\$12.60
Portland, Oregon	\$12.52	\$12.38
Northern California	\$12.51	\$12.32
Boston (Northeast)	\$13.87	\$13.73

## QUOTA TRANSFER SUMMARY

July quota transfer figures were not ready at the time of publication. For June 2002, 3 dairy producers transferred 591 pounds of solids-not-fat (SNF) quota. June quota sales averaged \$516 per pound of SNF (without cows), an average ratio of 2.57.

## ALFALFA UPDATE: JULY

**Northern California:** Throughout June, Premium and Supreme alfalfa demand was steady to firm and supplies remained moderate. Fair to Good alfalfa was steady with a wide range of prices and supplies from inventories was adequate. Retail and Stable hay was steady to weak for alfalfa, but firm for Orchard and Orchard/alfalfa mix hay. The weather was favorable for hay production. Northern areas finished up on 2nd cutting hay while lower valley areas finished up 4th cutting.

**Southern California:** Premium and Supreme alfalfa not tested. Fair and good alfalfa was steady with light to moderate demand and supplies adequate. Retail and Stable hay sales were slow and demand was light. Hay in high desert mostly going into barn storage for winter take out. July weather was favorable for hay production.

## SUPREME HAY PRICES

Statewide average prices per ton

Area	7/5	7/12	7/19	7/26
Petaluma	\$135-165	\$136-165	\$145-175	\$140-155
North Valley <sup>1</sup>	\$150-163	\$154-155	\$140-158	\$135-158
South Valley <sup>2</sup>	\$155-170	\$150-165	\$142-182	\$155-165
Chino Valley	-----	-----	-----	-----

<sup>1</sup> North Valley is Escalon, Modesto and Turlock areas.

<sup>2</sup> South Valley is Tulare, Visalia and Hanford areas.

## ALFALFA HAY SALES/DELIVERY

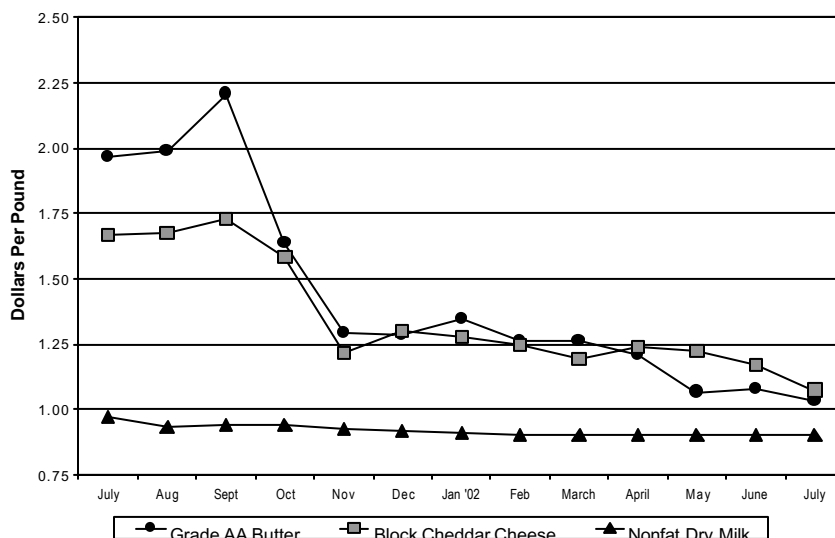
	June 2002	July 2002
Tons Sold <sup>1</sup>	222,773	346,789
Tons Delivered <sup>2</sup>	117,223	138,745

<sup>1</sup> For current or future delivery.

<sup>2</sup> Contracted or current sales.

Alfalfa hay sales, deliveries and Supreme quality prices per ton, delivered to dairies, as reported by the USDA Market News Service, Moses Lake, WA, (509) 765-3611, <http://www.ams.usda.gov/marketnews.htm>

## Grade AA Butter, Cheddar Cheese, and Nonfat Dry Milk Prices Used in the Calculation of California Milk Prices



# Cattle Producer Update



CALIFORNIA DEPARTMENT OF FOOD & AGRICULTURE

July 2002

## Enhancing Communication with Producers

The *Cattle Producer Update* is intended to give producers current information about California's on-going bovine TB investigation. For more comprehensive information, contact the CDFA Headquarters Office at (916) 654-1447, a CDFA field office listed on the next page, or check our web page at [www.cdfa.ca.gov](http://www.cdfa.ca.gov).

## Current Status

California currently has one dairy herd affected with bovine TB. More than 26,000 cattle in California have been tested for exposure to TB since this investigation began. To date, there is no evidence to suggest that infection has spread from this herd.

Cumulative Since May 13, 2002	
Herds tested	19
Affected herds	1
Animals tested	26,478
Initial TB skin test responders	584
Reactors	99
Suspects	47
Reactors & suspects eliminated	146
Traceouts eliminated	175
Exposed animals eliminated from quarantined herd	347
Average field personnel assigned on a daily basis	22

## Background

In May 2002, bovine TB was confirmed in a Tulare County dairy herd. The CDFA, USDA and the industry established a task force and worked together with the herd owner and his veterinarian to control and eradicate the disease from the herd. The work is ongoing.

The California Department of Health Services and Tulare County Health Department representatives addressed public health issues and coordinated TB testing for the dairy's employees.

## What is California Doing to Eradicate the Disease?

- The affected herd is under state quarantine. The cattle are tested for TB at two-month intervals and those testing positive are removed from the herd
- Cattle are only allowed to leave the affected herd to be slaughtered at a USDA inspected facility where enhanced inspection is conducted to ensure they are not infected with TB
- All cattle sold from or associated with the affected herd over the last five years are being traced and tested
- Efforts to purchase and slaughter all cattle that left the affected herd are underway
- Calves from the affected herd are raised away from the adult cattle and are fed only pasteurized products
- Areas on the affected premises that may be contaminated with TB bacteria are cleaned and disinfected

As a precaution and to protect other states, all dairy breeding animals leaving California that are more than six months of age require a negative TB test within 30 days of movement.

At this time, this requirement does not apply to beef cattle.

## Investigation Plans

High-risk herds traced out from the affected herd will be tested by late July 2002. Most heifers traced out of the herd will be slaughtered and examined by late July 2002. The USDA will use the information collected from these trace outs to begin conducting a full review.

It will take several months to complete the process of tracing and testing all possible cattle from the affected herd and the herds they entered.

## Potential Impact for California's TB-free status

California's current bovine TB-free status has not changed at this time. There are various status levels  
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that can be assigned to a state under the USDA tuberculosis eradication program: accredited free, modified accredited advanced, modified accredited, accreditation preparatory or non-accredited.

For California to maintain its accredited-free TB status, the USDA currently requires that the affected herd be depopulated and that CDFA complete a full review showing that there is no evidence of TB spread in California.

If the state is unable to satisfy these requirements, California's status could be changed to a modified accredited-free status which would require that all California breeding cattle have official identification and a negative TB test within 60 days of interstate movement OR originate from a TB accredited free herd (mandatory annual TB testing) OR move directly to slaughter.

Should more than three infected herds be found in a year, the status could be designated as modified accredited.

If the USDA recommends a change in California's status, it may occur later this year or early next year.

#### What can producers do?

Your veterinarian is an excellent source of information on bovine TB. In addition:

- Practice good biosecurity
- Follow animal import regulations
- Know the TB status of the herd where you purchase animals: If you share grazing land with other cattle, know their TB status. Grazing animals with or adjacent to Mexican-origin cattle is a potential risk for exposure to TB
- Maintain the permanent identification of your animals and keep records of animal movement into and out of your herd

#### Public Health

The risk of people getting bovine TB from animals in the U.S. today is extremely remote. All carcasses

are carefully inspected and, if infected, are rejected from the human food chain. The bacterium causing TB is killed when meat is cooked and milk is pasteurized, hence these products are safe to eat. It is also very unlikely that a person would become infected with bovine TB from an infected carcass. People that drink raw milk from infected cattle, and workers who are in close contact with infected animals are at most risk. People who come in close contact with TB-infected animals are encouraged to take extra precautions, and may wish to contact the Department of Health Services at (916) 327-0332.

#### CDFA Animal Health Branch Offices

Sacramento (HQ)	916-654-1447
Modesto	209-491-9350
Ontario	909-947-4462
Redding	530-225-2140
Tulare	559-685-3500

#### CDFA Milk and Dairy Foods Control Offices

Stockton	209-466-7186
Oakland	510-622-4810
Fresno	559-445-5506
Ontario	909-923-9929

**United States Department of Agriculture**  
**916-857-6170 or 877-741-3690**



# Higher Alfalfa Hay Acres No Surprise to California Hay Industry

by Seth Hoyt, California Agricultural Statistics Service

The USDA June Acreage Report released on June 28, 2002, estimated alfalfa hay acres in California in 2002 at 1,160,000, up 15 percent from 2001. This was the largest alfalfa hay acres in California since the 1,190,000 acres in 1973. In the last ten years, alfalfa hay acres accounted for 65-67 percent of all hay acres in California. In 2002, alfalfa hay accounts for 70 percent of all California hay acres .

The people in the hay industry I talked with over the past eight months were predicting from 5 to 25 percent more alfalfa acres in California in 2002, with most predicting between 10 and 20 percent. It appears that a large amount of the increased acres were in the central and northern valleys. On June 13, 2002, the Imperial Irrigation District reported alfalfa hay acres at 178,000 in the Imperial Valley, up only 3 percent or 5,800 more acres than June of last year. Contrary to what some people thought last fall, it appears that substantial cotton acres in central California were converted to alfalfa hay. Industry sources also indicated that grain and sudan hay acres, particularly in the northern valley, were converted to alfalfa hay.

As I stated at the Alfalfa Symposium in December, even with a 15 percent increase in alfalfa acres, the early market would probably still be good on early cuttings of high quality alfalfa hay in the southern desert and San Joaquin Valley. This proved to be true. However, the market began to deteriorate in April, a little sooner than I had anticipated. I also stated that a 15 percent increase in alfalfa acres would be a challenge to the alfalfa hay market the second half of 2002. Again, I did not anticipate the market to be under such bearish pressure in May, particularly middle to lower quality alfalfa (Good and Fair quality) in the northern valley. Fair quality alfalfa

hay prices (non-rain damaged) in the Sacramento Valley in late May brought \$70.00-\$90.00 per ton fob, according to Market News. These prices were \$10.00 to \$20.00 below the central valley and the Imperial Valley.

In spite of a decline in alfalfa hay prices in May and June, higher quality alfalfa hay was still bringing a good price considering the amount of acres in California.

For the week ending June 21, 2002, Supreme alfalfa hay in the Sacramento Valley averaged \$135.00 per ton and Premium quality in the Tracy-Patterson-Stockton area averaged nearly \$140.00 per ton, fob, according to USDA Market News. Originally, I didn't think the spread between the top and bottom of the alfalfa hay market in California in 2002 would be wider than in 1999. However, I'm beginning to change my mind. In the Tracy-Patterson-Stockton area the third week of June, the spread between the top of the Premium and bottom of Fair quality alfalfa markets was \$60.00 per ton. What would the price spread have been if there were prices on Supreme alfalfa hay that week?

Maybe I'm an eternal optimist, but there is the possibility that the high quality alfalfa hay market could stabilize and possibly even tighten in some areas in the weeks ahead. Why? Some dairymen have just recently (in June) entered the market to purchase new crop milk cow hay. According to industry sources, supplies of alfalfa hay testing 56 TDN and above have tightened. Even though alfalfa hay acres in the seven western states are up 8 percent from 2001, drought conditions and tight water supplies in much of the West could reduce supplies of high quality alfalfa hay. Short water supplies have been reported in Utah,

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Idaho, and parts of Nevada. In January-March 2002, alfalfa hay shipments by truck into California were up 12 percent from the same quarter last year, according to CDFA border stations. However, it is unlikely that this year-to-year increase will continue in the months ahead. With the very strong hay market in California the second half of last year, alfalfa hay shipments into the State during that period, particularly from Utah and Nevada, were up sharply. The one factor that may temper higher prices on Premium and Supreme quality alfalfa hay is the current low milk prices.

It doesn't take a rocket scientist to know that with 15 percent more alfalfa acres, supplies of middle to lower quality alfalfa hay are going to build this summer. Much of the increase will be in the central and northern valleys. Some growers may pull out older stands, depending on the market at mid-summer and water supplies. Will there be enough demand for dry cow hay in the coming weeks to hold the market above the lows seen in 1999? Time will tell. Hay growers closer to Tulare and the central valley will have a freight advantage in the dry cow hay market. Imperial Valley growers may find support by having only 3 percent more alfalfa hay acres from a year ago. With such a small increase in acres they may have a little leverage with the Chino dairies. However, unlike a year ago, they probably won't find San Joaquin Valley dairy hay buyers on their doorstep wanting to buy dry cow hay.

Again, trying to find something positive in a gloomy situation is news that export buyers are becoming more aggressive in the California alfalfa hay market. One source stated that export buyers in late June were bidding \$5.00 to \$10.00 per ton above domestic buyers for Good quality alfalfa hay in north central California. Alfalfa hay prices may have dropped to a level where export buyers, driven out of the California alfalfa market last year due to high prices, are back. Horse and retail hay buyers may not be very aggressive as they see an increase in offerings and appear to be playing the market for the best deals. However, competition from export buyers could support the Good quality alfalfa hay market in some areas.

The USDA estimate for other hay acres in California in 2002 is 500,000, down 6 percent from the 530,000 acres in 2001. According to industry sources and the Imperial Irrigation District, sudan hay acres are down substantially from last year. Imperial Valley

acres as of mid-June were down 13 percent at just over 42,000 acres. Sources indicate that sudan hay acres are down significantly in the Sacramento Valley and down slightly in the central valley due to unfavorable export market conditions in 2001. Oat and grain hay acres appear to be mixed. Due to tight oat seed supplies last fall and drought conditions in the southern half of California, some areas saw a decline in oat and grain hay production this spring. However, it appears that in north central and northern California some growers were able to obtain oat hay seed, including out-of-state supplies and grain hay production was up in some areas, according to sources. Unfortunately, rain in mid-May in northern California caused considerable damage to grain hay in the windrow and the bale. Another development was an increase in wheat hay production due to the depressed wheat for grain market. The wheat for grain market did make an upward surge in June due to lower than anticipated yields and production in the early winter wheat harvest in the central U.S.

## **Farm Bill Update**

The USDA Farm Service Agencies across the United States will be facilitating the payment program aspect of the Farm Bill. As of late July, these agencies are still awaiting confirmation on many of the fine points of the Bill. It is anticipated that sometime in mid-to-late August, the sign-ups will be underway, but this is still not a "confirmed" timeline. According to Farm Service Agency sources, details of the Bill are currently being finalized, including deadline dates for signing up to participate and details of how the payment program will work for producers. Details of the sign-up deadlines and payment options will be published in this newsletter as they become available. One thing is for certain: each producer must sign up in order to receive the payments outlined in the Bill. In addition, the Farm Service Agencies hope to communicate details of the program with each producer by mail.

Information on the Farm Bill, including a question and answer section relating to the dairy portion of the Bill, can be found on the internet at [www.fsa.usda.gov](http://www.fsa.usda.gov). Questions can be directed to the Farm Services Agency office in Davis, Larry Plumb, at 530-792-5520, or your local county Farm Services Agency office. The Dairy Marketing Branch will be in constant contact with Larry Plumb and will continue to print in this newsletter the latest information as it becomes available.

# CALIFORNIA CLASS 4 MILK UTILIZATION INCREASES TO 74 PERCENT

Robust milk production across the U.S., sluggish dairy commodity markets and stagnant demand for dairy products have given way to lower milk prices. As milk prices have decreased over the past several months, questions have arisen concerning how far prices might fall.

In some respects, the current market outlook shares similarities with what the industry faced toward the end of 2000 when the wholesale cheese market collapsed. When wholesale cheese prices fell, the California Class 4b price (and federal Class III price) was below the federal support purchase price of \$9.80 per cwt. This situation persisted from October 2000 until February 2001. However, during that same time, dairy farmers received pool prices well above the \$9.80 per cwt. target support price because of the strength of the butter and powder markets.

The current market situation is different because of the softness of not only the cheese market, but the butter and powder markets as well. In June 2002, prices for Classes 4a and 4b were pegged at \$10.13 and \$9.59 per cwt., respectively. Combined, Class 4a and Class 4b accounted for 74% of the milk marketed in California during June 2002 (Class 4b utilization was 43.03% while Class 4a was 31.59%). In June of 1998, Class 4 utilization was 64.6%, in June 2000 it was 68.6%, compared to 74.6% in June 2002. Low class prices and high utilization necessarily mean that pool prices will be lower.

The California overbase price can fall below the \$9.80 per cwt. support price. Prior to 1995, the pricing formulas for Classes 2, 3 and 4a prices included a floor price at the support purchase prices for butter and nonfat dry milk. The practice of having a price floor at the federal support

purchase prices was eliminated from the formulas in part because the resulting milk prices reflected commercial market conditions and the dairy price support program was scheduled to terminate.

The matter was last reviewed by the Department in a January 2001 public hearing. The Department subsequently decided not to adopt formulas incorporating floors at the federal support purchase prices.

In its findings, the Department noted that:

- Federal order pricing formulas also do not floor class prices at the federal support price.
- Classes 4a and 4b are critical for clearing the supply of California milk production.
- Any upward adjustment of California's pricing formulas to reflect the support price may make California dairy products less competitive.
- If California manufactured products are placed at a competitive disadvantage relative to products in other states, the production of California manufactured products may be curtailed.
- Without adequate processing capacity, California farm milk would either have to be dumped or shipped long distances to find a home.

Milk mailbox prices for California dairy farmers and for all federal order regions across the U.S. follow the same patterns/trends of decreases and increases as evidenced in a mailbox price comparison. This comparison also shows that in the past few years there have been times when mailbox prices are above the support price, and years like 2000 when both California and federal order mailbox prices were below support.



## Milk Production Cost Index for California

Month	Del Norte / Humboldt		North Bay		North Valley		South Valley		Southern California		Statewide Weighted Average	
	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
	<i>Dollars per Hundredweight</i>											
January	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
February	14.68	15.39	13.66	14.17	12.60	12.97	12.09	12.90	13.04	13.10	12.5165	13.0110
March	12.66	13.18	13.10	14.11	12.39	12.50	12.00	12.49	13.20	12.98	12.3930	12.6245
April	12.66	13.18	13.10	14.11	12.39	12.50	12.00	12.49	13.20	12.98	12.3930	12.6245
May	11.43		13.15		12.66		12.39		13.57		12.7255	
June	11.43		13.15		12.66		12.39		13.57		12.7255	
July	11.75		13.50		12.75		12.95		13.91		13.0678	
August	11.75		13.50		12.75		12.95		13.91		13.0678	
September	12.89		13.57		13.04		12.99		14.19		13.2516	
October	12.89		13.57		13.04		12.99		14.19		13.2516	
November	14.23		14.09		12.86		12.69		13.45		12.9463	
December	14.23		14.09		12.86		12.69		13.45		12.9463	

## HUNDREDWEIGHT POOL PRICES

Month	Quota	Overbase
April '01	\$14.65	\$12.95
May	\$15.70	\$14.00
June	\$16.46	\$14.76
July	\$16.35	\$14.65
August	\$16.70	\$15.00
September	\$16.95	\$15.25
October	\$14.71	\$13.01
November	\$13.67	\$11.97
December	\$12.93	\$11.23
January '02	\$13.18	\$11.48
February	\$12.53	\$10.83
March	\$12.37	\$10.67
April	\$12.41	\$10.71
May	\$12.06	\$10.36
June	\$11.60	\$ 9.90

## 2001 Milk Mailbox Prices in Dollars per Hundredweight

	April	May	June	July	August	September	October
California <sup>1</sup>	\$13.71	\$14.54	\$15.23	\$15.13	\$15.54	\$15.95	\$14.06
USDA <sup>2</sup>	\$14.29	\$15.29	\$15.95	\$15.92	\$16.34	-----	-----

<sup>1</sup> California mailbox price calculated by CDFA.

<sup>2</sup> All federal milk market order weighted average, as calculated by USDA.

## Milk Mailbox Prices for August 2001

